

National Credit Union Administration  
12 CFR Parts 704, 715, and 741  
Supervisory Committee Audits

Agency: National Credit Union Administration (NCUA)

Action: Advance notice of proposed rulemaking.

To: National Credit Union Administration

From: Robert Taylor, Western Sun Federal Credit Union

The following are my personal comments and suggestions regarding the proposed changes to rule 715. If a question is not addressed, I did not have any relevant input. It is my hope that the following suggestions may ultimately enhance the usefulness of credit unions in pursuing their mission to society.

## II. Issues for Comment

### **A. Internal Control Assessment and Attestations**

Question No. 1 Should part 715 require, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting above a certain minimum asset size threshold? Explain why or why not.

The current financial statement audit for credit unions (CUs) over \$500 million already incorporates tests of internal controls during the audit period. Granted the focus of the financial statement audit is different, in that its focus is to render an opinion as to the accuracy of the financial statements and not as focused on internal controls like an attestation of internal controls over financial reporting. I feel that for CUs over \$500 million an annual financial statement audit is sufficient.

Question No. 4 Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes) or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?

I think if an internal control attestation is required in addition to a financial statement audit, an attestation of internal controls over financial reporting should be sufficient in that the same internal controls in play by an institution are relevant to financial statements or the call report. In other words, the same information used in the internal financials is used in the call report process.

Question No. 5 Should the same auditor be permitted to perform both the financial statement audit and internal control attestation engagement, or should a credit union be allowed to engage one CPA to perform the financial statement audit and another to perform the attestation engagement on internal controls? Explain the reasons for your answer.

I feel it should be a separate CPA, because if the one that performs the test of internal controls during the financial statement audit is asked to also do the attestation of internal controls, he or she will have the human tendency to be consistent in what they find. In other words, they will find what they expect to find based on their past experience with the credit union audit.

#### **B. Standards Governing Internal Control Assessments and Attestations**

Question No. 8 If credit unions were required to obtain an “attestation on internal controls,” should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB's AS 2 standard that applies to public companies, or to the AICPA's revised AT501 standard that applies to non-public companies? Please explain your preference.

I think PCAOB AS2 is for public stock companies not non-profits. The AICPA's AT501 should be followed.

#### **D. Independence of State-Licensed, Compensated Auditors**

Question No. 14 Should a State-licensed, compensated CPA who performs a financial statement audit and/or “internal control attestation” be required to meet just the AICPA's “independence” standards, or should they be required to also meet SEC's “independence” requirements and interpretations? If not both, why not?

I am only familiar with the AICPA's independence requirements. I think that the FDIC probably included the SEC along with the AICPA independence requirements because of the public company status of some banks. It is my perception since credit unions are non-public status, there is not any need for the SEC's independence requirements.

#### **E. Audit Options, Reports and Engagements**

Question No. 16 Is there value in retaining the “Supervisory Committee audit” in existing 715(c) as an audit option for credit unions with less than \$500 million in assets?

I think that the Supervisory Committee Guide Audit relays to credit union management and credit union boards a false sense of operational effectiveness when performed by a non-CPA, especially a credit union league which cannot demonstrate independence. By law, only a licensed CPA can offer a legal opinion or attestation on financial matters. I don't think credit union management and boards understand what they are actually getting, which is no assurance as to the effectiveness or accuracy of anything.

I feel that at minimum CUs under \$500 million should have an attestation of internal controls over call reporting. Unfortunately, most often the option of choice is the Supervisory Guide Audit in the form of an agreed upon procedures engagement performed by a non-licensed person because it is the cheaper route, not necessarily the best value.

Question No. 22 NCUA recently joined in the final Interagency Advisory on the Unsafe and Unsound Use of Limitations of Liability Provisions in External Audit Engagement Letters, 71 FR 6847 (FEB. 9, 2006) Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?

Supervisory Committees in their attempt to limit auditor liability and therefore audit cost through engagement letters is questionable. On one hand, if you attempt to mitigate auditor liability the credit union might keep the exam costs down. On the flip side, if the auditor is unable to perceptibly decrease liability the cost probably will go up. One thing is for certain, with increased liability the auditor's scope will be broaden, and if there is any kind of assurance offered by the auditor, their attestation or audit will be more thorough.

Looking at the above issue from a legal and personal standpoint, I'm not sure how effectively a CPA, offering any level of assurance on financial matters, could mitigate their liability (i.e. negligence) through disclaimers in an engagement letter. I don't think it would be perceived favorably in a court of law. Being a CPA, I don't think I would want to be a defendant in such a law suit, especially if there was a jury involved.

Respectively submitted,

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